


Commerce Capital

An EATON/ay Financial Services company

1978 Annual Report

AR48



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Highlights

	1978	1977
Total Income	\$ 64,882,000	\$ 64,756,000
Common Share Earnings before Extraordinary Items Per Share	\$ 1,687,000 70¢	\$ 2,013,000 81¢
Total Assets	\$529,830,000	\$446,470,000
Common Shareholders' Equity Per share	\$ 12,662,000 \$5.23	\$ 11,639,000 \$4.81
Number of Shares Outstanding Weighted average At year-end	2,419,905 2,419,905	2,493,758 2,419,905

President's Report

After seven consecutive years of steady growth, Commerce Capital's earnings turned downward in 1978. Earnings before extraordinary items amounted to 70¢ per common share compared to 81¢ in the previous year, a decline of 14%. This downturn occurred despite a satisfactory performance in terms of asset growth. Total assets expanded from \$446 million at the beginning of the year to \$530 million at year-end, an increase of \$84 million or 19%, as a result of an \$89 million expansion in our mortgage holdings. This expansion was financed by a corresponding growth in our guaranteed accounts, in particular guaranteed investment certificates. In the mortgage field, our production reached record levels as we financed almost 4,000 housing units and other types of properties across Canada. Common shareholders' equity grew from \$11,639,000 to \$12,662,000 or, on a per share basis, from \$4.81 to \$5.23. Taking into account the \$5 million preferred share issue completed during the year, total shareholders' equity moved up to \$17,662,000. In the last quarter a wholly-owned subsidiary which owned 496,965 common shares was wound up; in the process these shares were distributed to the parent company and subsequently cancelled. Although this affected the various components of shareholders' equity on the balance sheet, it did not alter the effective number of shares outstanding or the total value of shareholders' equity.

Our disappointing earnings performance in 1978 was largely the result of economic and monetary conditions which led to a continual narrowing in our interest rate margins as the year progressed. This was, and continues to be, a problem not only for our Company but for the whole trust industry. The Canadian economy remains relatively weak in terms of its overall rate of growth, with persistently high unemployment and inflation. With the exception of Alberta, housing

demand is soft, characterized by unsold inventories and static prices. As a result, the demand for mortgage financing is weak and mortgage rates comparatively low, as lenders literally scramble to find outlets for their mortgage funds. The more aggressive posture of the chartered banks in this area has aggravated the situation. At the same time, interest rates, particularly in the short end of the market, have moved up sharply not in response to buoyant economic conditions, as is usually the case, but due to international considerations. Canada's balance of payments problems, reflected in a weak Canadian dollar, have meant that we must pay particular attention to our level of interest rates vis-a-vis the United States. With rates rising dramatically in that country due to a strong economy and their own balance of payments problems, the Bank of Canada has had little choice but to move our rates sharply higher. Monetary policy today is geared to defending our dollar rather than influencing domestic conditions and, as a result, it has led to the peculiar situation of high interest rates at a time when the country is awash with money.

During 1978 our cost of funds jumped dramatically. For example, our savings rate increased from 6 $\frac{1}{4}$ % to 9%, our one-year Guaranteed Investment Certificate rate from 7 $\frac{1}{4}$ % to 10% and our five-year G.I.C. rate from 9% to 10 $\frac{1}{4}$ %. As a result, our overall cost of funds at the end of the year was close to $\frac{3}{4}$ of 1% higher than at the outset. In contrast, the yield on our combined mortgage and marketable security portfolios declined by over $\frac{1}{4}$ of 1%, in part due to the maturing of large numbers of mortgage loans which had been written at higher rates in earlier periods.

Due to inflationary factors, our overhead costs have continued to climb and, like the rest of the

trust industry, we are unable to pass on these higher costs. In this area, we have worked diligently to modify the rate of increase in administrative and general expenses and at the present time are undertaking a major review of our position to be certain that we are operating Commerce Capital in the most efficient manner possible.

Eaton/Bay Financial Services Limited

On December 28, 1978 Eaton/Bay Financial Services announced its intention to make an offer to purchase all the outstanding common shares of Commerce Capital Corporation Limited. This offer was made on January 10th of this year and at the time of its expiry on February 14th, Eaton/Bay had acquired over 97% of the shares. Subsequently, Eaton/Bay acquired the balance of the shares pursuant to the provisions of section 199 of the Canada Business Corporations Act. Management welcomes this new association with Eaton/Bay, a company which is also in the financial services business. We are confident it will strengthen our organization and enable us to provide better service to our customers across Canada.

Our Organization

During 1978 we completed the corporate integration plans introduced three years ago. All senior executive functions were moved to our Toronto offices by mid-year as well as all systems and accounting operations. In December we sold two more shopping centres, one in Kenora and one in Estevan, in line with our policy of reducing our investment in properties. In fact, our investment in properties declined substantially from \$27 million to \$17 million. By the end of the year we had achieved our goal of corporate concentration, with virtually all of our efforts

being devoted to the development of our trust and loan activities.

In June we opened a full service branch in Hamilton and throughout the year opened mortgage offices in Oshawa, London, Kingston and Orillia.

Our People

We want to take this opportunity to acknowledge the contribution made by all of our people to the accomplishments achieved during 1978. It was not an easy year and the dedication and resourcefulness displayed by everyone was outstanding. Despite a great many geographic moves and departmental changes, each staff member continued to do his best to serve the needs of our customers.

Dividends

We increased our dividends paid in 1978 to 24¢ per common share compared to 14¢ in the previous year. This was composed of quarterly dividends of 5¢ on March 31st, 5¢ on June 30th, 7¢ on October 16th and 7¢ on December 28th.

Changes in Directors and Officers

We would like to welcome Mr. G. D. deS. Wotherspoon and Mr. W. R. Livingston to the Board. Their appointments in February followed the acquisition of Commerce Capital by Eaton/Bay Financial Services referred to above, Mr. Wotherspoon being Chairman and Mr. Livingston President of Eaton/Bay. Mr. Wotherspoon was also appointed Chairman and Mr. Livingston Deputy Chairman of Commerce Capital.

During the year there were several senior executive appointments. Mr. K. J. Munro was appointed Vice-President, Finance; Mr. J. W. Beckerleg, Vice-President, Corporate Credit; Mr. R. D. Sommerville, Assistant Vice-President, Funds Management; Mr. P. Hurtubise, Assistant

Vice-President, Mortgage Administration; and Mr. R. D. Whitney, Assistant Vice-President, Mortgages.

New Products and Directions

The April federal budget created two new investment products in the registered retirement field — Registered Retirement Income Funds (RRIFs) and Term Annuities. After several months of development work we began marketing RRIFs in September to clients with maturing RRSPs.

In the latter part of the year we acted as an agent in marketing a 140 unit MURB townhome condominium project in the Vancouver area. Approximately 75% of the units were sold by year-end and we expect the balance to be sold by mid 1979. We are working with other developers with a view to acting as the marketing agent for other MURB projects during the year.

One of the major challenges facing our Company and the whole trust industry in the future is to find new types of investment opportunities, particularly ones which produce higher yields. It will no longer be satisfactory to rely so heavily on real estate mortgage investments. To this end, the industry is seeking broader investment powers. In the meantime, and working within our present limitations, we have recently established a new department specializing in private corporate financing for the purpose of originating or participating with other lenders in private corporate placements, typically term loans with a floating interest rate.

Corporate Finance

Two corporate financings were completed during the year: first, a \$3 million private placement of seven-year subordinated notes for the Trust Company in April; second, a \$5 million private placement of preferred shares for the parent

company in December to refinance an issue of income debentures of the same amount which matured at year-end.

Legislation

Proposed Bank Act amendments were expected by the end of March, but it has recently been announced that this deadline will be extended. One important feature of the proposed legislation is the establishment of a Canadian Payments Association which would provide for the voluntary membership of trust companies. As advocated by the Trust Companies Association of Canada it would not require a trust company which joined to maintain reserves with the Bank of Canada. As we indicated in last year's annual report, we are making preparations to enter this new Canadian payments system when it becomes operative.

During 1978, the Trust Companies Association of Canada held discussions with the Federal Superintendent of Insurance regarding revisions to the Trust and Loan Companies Acts. These revisions are vital to the future well-being of the trust industry and should be proceeded with as soon as possible.

Outlook

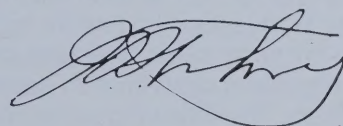
We expect little change in the pace of economic activity in Canada during 1979, with real GNP growing at the modest rate of approximately 3%. Inflation and unemployment will continue at high levels, although some improvement is expected in the rate of inflation. Housing formation will remain comparatively weak, with starts in all likelihood declining from their 1978 level.

With interest rates in Canada being held up in order to maintain an appropriate rate differential with the United States, any decline in U.S. rates

will be felt here immediately. We believe the U.S. economy will weaken throughout 1979 and that rates in that country will start to move downward around mid-year. This means that Canadian interest rates should drop during the second half, with the most pronounced declines being in the short end of the market.

Based on this outlook for interest rates, the pressure on our interest spreads is expected to diminish in the latter part of the year, thereby enabling us to achieve a more acceptable level of earnings by the third and fourth quarters. With respect to growth in assets, we expect 1979 to be another year of solid expansion, although not at as high a rate as in the past few years.

Our new association with Eaton/Bay Financial Services is a major step forward for our Company. During 1979 we will be devoting considerable time and energy to maximizing the advantages inherent in our combined operations. We have a broad customer base in all parts of Canada and our primary objective will continue to be the improvement in the quality of service we provide our customers.



J. B. Whitely

Toronto, March 19, 1979.

Financial Review

Earnings Performance

Common share earnings before extraordinary items during 1978 totalled \$1,687,000 compared to \$2,013,000 earned in 1977. On a per share basis, this amounted to 70¢ — a drop of 14% from the 81¢ earned last year. Extraordinary items reduced earnings by a further \$83,000, leaving net earnings of 66¢ per share.

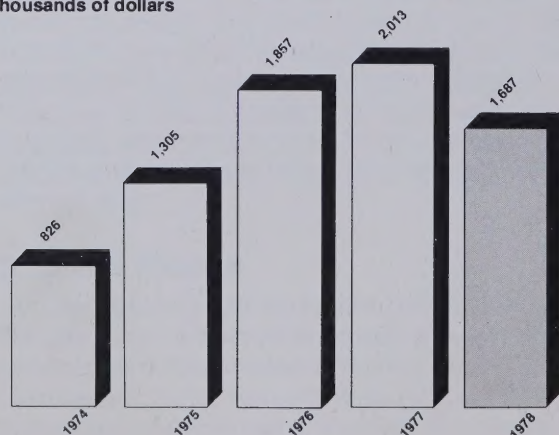
Total income for the year showed a slight increase of \$126,000 to the \$65 million level. This flattening out in revenues is directly related to a decrease in property sales of approximately \$5.7 million and a general slowdown in asset growth from prior years. The following table shows the underlying trend in total income, excluding income from the sale of properties.

Total Income Excluding Income From Sale of Properties (thousands)

	1978	1977	1976	1975	1974
Interest Income	\$50,667	\$43,915	\$37,786	\$29,007	\$20,197
Income for All Other Sources	2,872	3,772	3,220	2,853	1,935
Total Income	<u>\$53,539</u>	<u>\$47,687</u>	<u>\$41,006</u>	<u>\$31,860</u>	<u>\$22,132</u>

COMMON SHARE EARNINGS BEFORE EXTRAORDINARY ITEMS

thousands of dollars



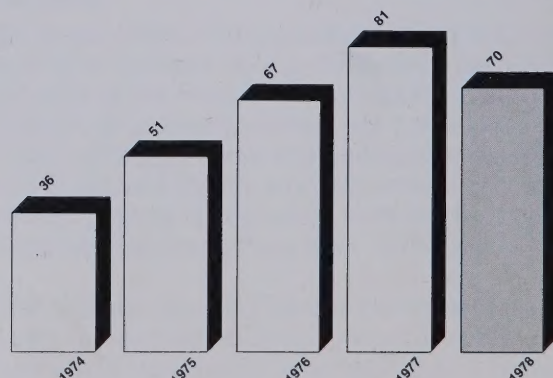
This year's drop in earnings was to a large degree the result of decreasing interest margins — which are the difference between interest earned from investments and that paid to our depositors. In particular, the cost of demand funds rose at a very rapid pace due to six increases in the chartered bank prime lending rate during the year — from 8¼% to 11½%. The table below shows by quarter the impact on earnings due to this development.

Common Share Earnings by Quarter

	Amount		Per Share	
	1978	1977	1978	1977
First Quarter	\$ 498,000	\$ 494,000	21¢	19¢
Second Quarter	459,000	471,000	19¢	19¢
Third Quarter	486,000	558,000	20¢	22¢
Fourth Quarter	244,000	490,000	10¢	21¢
	<u>\$1,687,000</u>	<u>\$2,013,000</u>	<u>70¢</u>	<u>81¢</u>

EARNINGS PER COMMON SHARE BEFORE EXTRAORDINARY ITEMS

cents



Return on Shareholders' Equity

Shareholders' equity increased by \$6,023,000 in 1978, of which \$5 million resulted from the private placement of preferred shares.

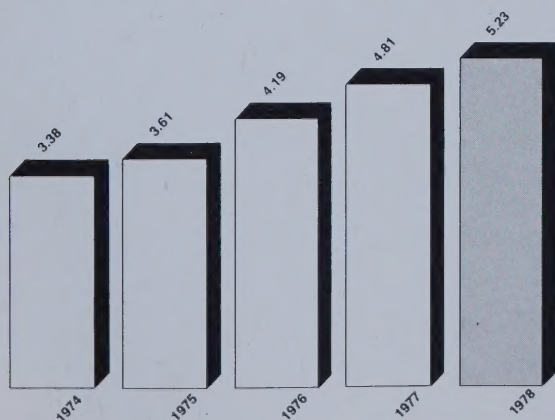
Common shareholders' equity increased to \$5.23 per share versus \$4.81 in 1977 for a 9% gain. Return on common shareholders' equity dropped from 17.8% in 1977 to 13.7% in 1978. The following table compares return on shareholders' equity for each of the past five years.

Return on Common Shareholders' Equity (thousands)

	1978	1977	1976	1975	1974
Average Shareholders' Equity	\$12,278	\$11,324	\$10,669	\$9,148	\$7,559
Earnings before Extraordinary Items	1,687	2,013	1,857	1,305	826
Return on Shareholders' Equity	13.7%	17.8%	17.4%	14.3%	10.9%

COMMON SHAREHOLDERS' EQUITY PER SHARE

dollars



Net Interest Income

Net Interest income contracted in 1978, the first time in the Company's history. This reduction was directly attributable to the rise in the Company's cost of funds while the returns on investments declined. The accompanying table shows the breakdown of interest income and interest expense.

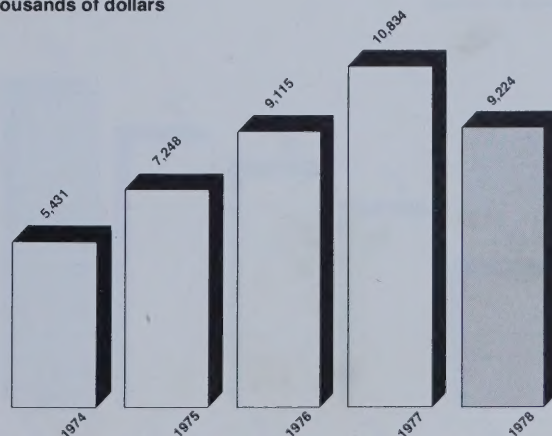
Net Interest Income (thousands)

	1978	1977
Interest Income Derived From:		
Mortgage Loans	\$40,792	\$36,136
Securities	8,476	7,372
Other	46	399
	<u>49,314</u>	<u>43,907</u>
Less: Interest Expense On:		
Guaranteed Accounts	39,103	32,884
Other Debt	987	189
	<u>40,090</u>	<u>33,073</u>
Net Interest Income	<u>\$ 9,224</u>	<u>\$10,834</u>

NOTE: Excludes interest expense on real estate development and includes dividend income.

NET INTEREST INCOME

thousands of dollars



Other Income and Expenses

Other income consists of such items as income from the sale of properties, rental property income, property management income, trustee service income and various other forms of fee income. The most significant source of other income was the sale of properties, which amounted to \$11,343,000, versus \$17,069,000 in 1977, while the balance from all other sources amounted to \$2,872,000. The major portion of this latter amount came from property rents, management fees and trustee service income.

Other expenses include cost of properties sold, personnel expenses, premises costs, provision for losses and various other types of general and administrative expenses. Cost of properties sold amounted to \$11,131,000, compared to \$18,036,000 in 1977, while various other expenses totalled \$10,368,000 — up \$918,000 from the previous year.

Total Assets

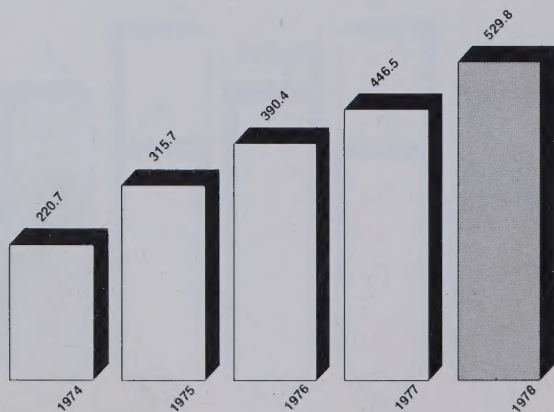
Total assets at year-end 1978 were \$530 million compared to \$446 million at year-end 1977. This growth was attributable to an increase of \$89 million in our mortgage portfolio. The expansion in assets was financed principally through an \$87 million increase in deposits from \$400 million at the beginning of the year to \$487 million by December 31st. This gain included a \$6 million increase in demand deposits, a \$16 million increase in short-term deposits and a \$65 million increase in guaranteed investment certificates, term bonds and term RRSPs. The following table illustrates the growth in deposits for the Company.

Total Deposits (thousands)

	1978	1977	1976	1975	1974
Demand Deposits	\$135,995	\$130,253	\$107,040	\$ 68,466	\$ 37,916
Term Deposits	350,489	269,523	230,404	194,004	147,362
Total Deposits	<u>\$486,484</u>	<u>\$399,776</u>	<u>\$337,444</u>	<u>\$262,470</u>	<u>\$185,278</u>

TOTAL ASSETS

millions of dollars



Review of Operations



Money Services



Mortgage Lending



Marketable Securities

Money Services

Commerce Capital's guaranteed accounts increased \$87 million or 22% during 1978, reaching \$489 million. This growth was composed of \$81 million in term deposits and \$6 million in demand deposits. Term deposits now represent 72% of total Company deposits, up from 67% a year earlier. The faster growth of term deposits resulted in further improvement in the Company's matching of investment and deposit maturities. This improvement in deposit mix was achieved with only a modest relative increase in interest expense due to the small difference between short-term and long-term interest rates which occurred throughout much of the year. Growth in RRSPs again represented an important part of total deposit increases. Commerce Capital has been an industry leader in the RRSP field, and now has a total of \$122 million in registered plans, representing the retirement savings of over 22,000 participants. The table below provides a breakdown of the various types of deposits represented in the guaranteed accounts.

Type	Principal Amount	%
	(thousands)	
Chequing	\$ 8,571	1.8
Savings	27,726	5.7
RRSP (Demand)	91,155	18.7
RHOSP	8,503	1.7
Bank Loans	2,190	.4
G.I.C.s, Bonds, IAACs & Term RRSPs		
Due: 1979	80,948	16.6
1980	48,044	9.8
1981	55,898	11.4
1982	57,407	11.7
1983	85,385	17.5
After	23,082	4.7
	<u>\$488,909</u>	<u>100.0</u>

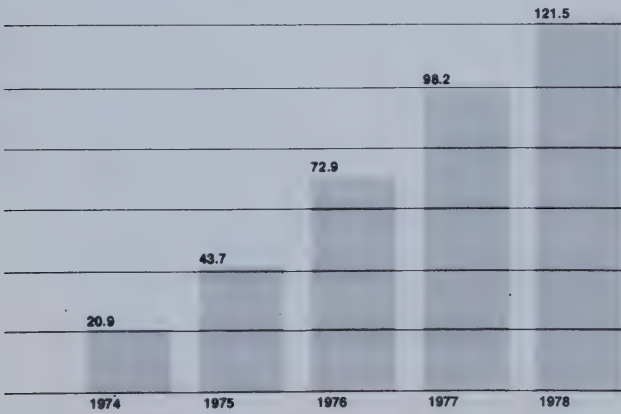
growth well in excess of our original expectations. The other four branches are primarily involved in providing mortgage services to their respective communities.

Several new money services were introduced during the year in our continuing programme of expanding the number of financial options available to clients. A new type of investment certificate, the Commerce Capital Guaranteed Deposit Receipt, was added to our range of term deposits. These deposit receipts are cashable prior to maturity, and are designed for institutional and commercial depositors. Initial response to this new product has been very encouraging.

In the area of retirement savings, Registered Retirement Income Funds (RRIFs) were introduced to allow holders of maturing RRSPs alternatives to life annuities. Both guaranteed term and self-managed retirement income funds are being offered. Personal RRSP loans, designed specifically to assist clients in making their annual RRSP contribution, were introduced during the Fall and have been well received. Also in the tax planning area, a 140 unit townhome condominium project in British Columbia was financed and marketed by the Company. This project qualifies for MURB status and provides purchasers with attractive tax deferral opportunities.

Commerce Capital opened five new branches in Ontario during 1978 — Hamilton, Oshawa, Orillia, London and Kingston. The Hamilton office offers a full range of services and has achieved

REGISTERED RETIREMENT SAVINGS PLANS
millions of dollars



Mortgage Lending

An extremely competitive environment for mortgage lending developed during 1978. A large surplus of unsold homes remained in all areas of the country except for Alberta. New housing starts, of approximately 223,000, were 9.3% below 1977 levels. These conditions, combined with modest economic growth, kept mortgage demand slack at a time when most lenders had an ample supply of funds.

Commerce Capital achieved healthy growth in its mortgage portfolio despite the market environment described above. In large part, this was because of our solid position in the Alberta market where in excess of 50% of our commitments were made during 1978. Mortgage placements made during the year were \$190 million, an increase of \$67 million, or 54% over 1977 figures. These placements resulted in a net increase of \$89 million in total mortgage holdings to \$412 million, after allowing for repayments of \$101 million. In addition to these amounts, the Company placed an additional \$16 million through its mortgage banking operations. Mortgages under administration for clients now total \$41 million.

The majority of our commitments were made on residential properties, as in past years. The residential component of our mortgage portfolio now stands at 84%, up 6% over the year. The accompanying table illustrates the diversification of our mortgage holdings.

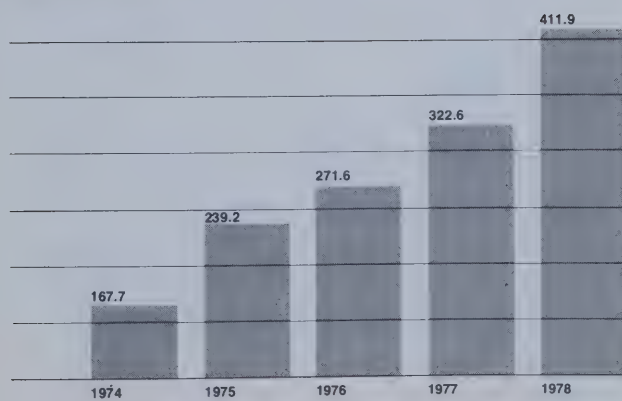
Recent increased competition in the mortgage market has resulted in considerable innovation in the types of loans available to borrowers. In this area, Commerce Capital has been an industry leader in offering loans with optional maturity dates. Our clients can now select any maturity between one and five years; during 1978 a significant percentage of our new loans were written for terms of less than five years. Our Company also offers "wrap around" loans to

allow purchasers of existing dwellings to keep a mortgage loan with attractive terms in place on their property. Open loans, which permit prepayment without penalty, were made available at a slight interest rate premium.

Our mortgage loan portfolio should continue to experience steady growth during 1979, but at a rate somewhat lower than in recent years. With competition for new loans remaining very keen, and interest rates on deposits remaining high relative to yields being earned on mortgage loans, the Company intends to follow a pattern of increased selectivity in new loan placements. This will ensure that a reasonable spread between the cost of our funds and the rate we can earn is maintained.

	Number of Loans	Principal Amount (thousands)	%
<u>Size of Mortgage Loans</u>			
Up to \$ 25,000	2,699	\$ 42,000	10
\$ 25,000-\$ 50,000	4,696	172,000	42
\$ 50,000-\$100,000	1,519	96,000	23
\$100,000-\$250,000	310	45,000	11
\$250,000 and over	100	57,000	14
	<u>9,324</u>	<u>\$412,000</u>	<u>100</u>
<u>Property Type</u>			
Residential	8,778	346,000	84
Commercial and Other	546	66,000	16
	<u>9,324</u>	<u>\$412,000</u>	<u>100</u>
<u>Geographical Breakdown</u>			
British Columbia	2,241	92,000	22
Prairie Provinces	3,570	172,000	42
Ontario and Quebec	3,482	139,000	34
Other	31	9,000	2
	<u>9,324</u>	<u>\$412,000</u>	<u>100</u>
<u>Mortgage Type</u>			
Conventional	5,108	217,000	53
Insured	4,069	176,000	43
Interim	76	11,000	3
Other	71	8,000	1
	<u>9,324</u>	<u>\$412,000</u>	<u>100</u>

MORTGAGE LOANS
millions of dollars



Marketable Securities

Aided by a further depreciation of the foreign exchange value of the Canadian dollar, real economic activity in 1978 exhibited a modest improvement over 1977. However, the economy is still operating well below its potential. As a result, the unemployment rate did not improve and remained above 8% throughout the year. Despite the slack in the economy, inflation remained high and by year-end was escalating due to higher food costs.

In the face of a sharp rise in U.S. interest rates and a weak international trade balance, the Bank of Canada shifted its monetary policy in 1978 from regulating the supply of credit for domestic purposes to controlling and protecting the external value of the Canadian dollar. Consequently, a significant increase in interest rates occurred during the year. Despite rising interest rates, equity markets performed remarkably well. Continued strong demand for equities with high dividend yields resulted in continued appreciation in the price of preferred shares. Major oil and gas discoveries, and strong earnings and dividend increases resulted in excellent gains in many Canadian common shares. Within this economic and capital market environment we were able to capitalize on the strength in preferred and common share prices and to make further improvements to the structure of the bond portfolio.

The accompanying table indicates that total investments remained unchanged from 1977 to 1978. It also provides a breakdown of the Company's holdings, indicating the very liquid nature of the portfolio. The investments are heavily concentrated in short-term paper and government debt securities. Of particular note is the increased investment in Government of Canada bonds, most of which mature within 3 years.

Investment Portfolio (thousands)

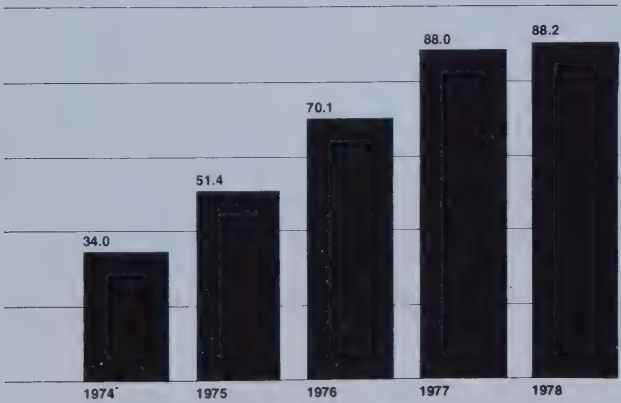
	At Cost	
	1978	1977
Bonds — Canada	\$14,803	\$ 2,159
— Provincial	19,101	29,604
— Corporate	7,111	7,667
Stocks — Preferred	16,314	16,561
— Common	5,959	5,418
Short-term Paper and Cash	24,929	26,592
	<u>\$88,217</u>	<u>\$88,001</u>

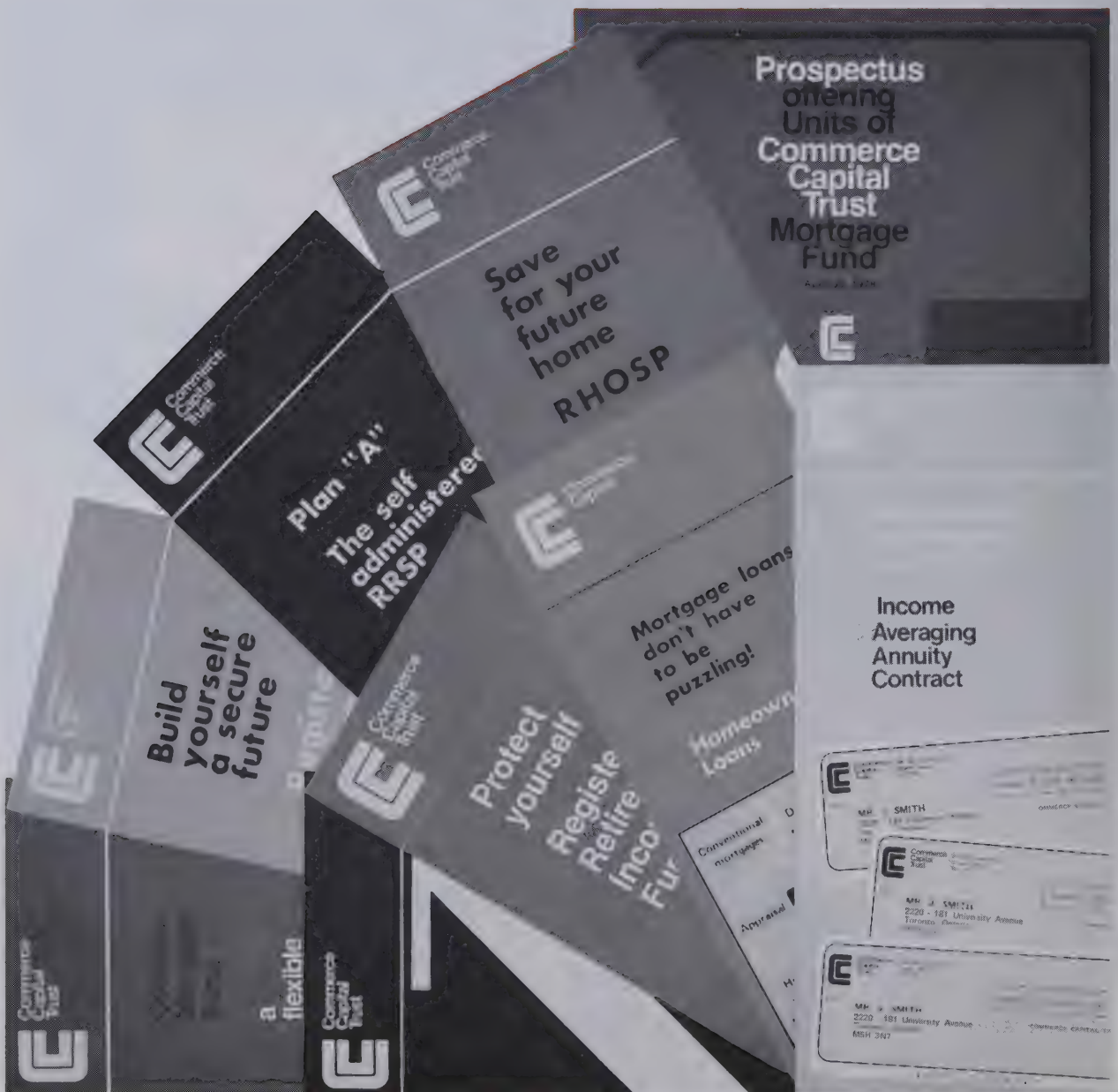
The Company continued to reduce the term to maturity of its bond portfolio in 1978. At year-end the average term of the portfolio was 6.7 years compared to 8.9 years in 1977. With a flat yield curve the term reduction has been completed with minimal decrease in yield. This achievement has resulted in a better matching of the average term of the Company's assets and liabilities.

In recent years preferred shares and other high-yielding equities have provided very attractive rates of return compared to other fixed-income securities due to the tax-free status of dividends received by corporations. In 1978 dividend paying securities contributed \$1.9 million in tax-free income to the Company. The majority of the additions to the preferred share portfolio in 1978 were securities that have retraction privileges, thus maintaining a proper match with the Company's liabilities.

The year was both active and productive. Bond portfolio transactions totalled \$85 million, equity transactions \$33 million, and money market transactions \$457 million. These portfolio transactions further increased the liquidity and quality of the investments. The investment portfolio is well positioned to take advantage of opportunities in 1979.

INVESTMENT PORTFOLIO
millions of dollars





Commerce Capital Corporation Limited

Consolidated Financial Statements

Auditors' Report

To the Shareholders of
Commerce Capital Corporation Limited

We have examined the consolidated balance sheet of Commerce Capital Corporation Limited as at December 31, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.


Chartered Accountants

Toronto, Canada
March 1, 1979

Commerce Capital Corporation Limited

Consolidated Balance Sheet

as at December 31, 1978

Assets	1978	1977
Cash and deposit receipts	\$24,929,000	\$26,592,000
Marketable securities (note 2)	63,288,000	61,409,000
Mortgages (note 3)	411,907,000	322,615,000
Accounts receivable and other assets (note 4)	7,770,000	4,466,000
Properties (note 5)	17,639,000	27,616,000
Premises and equipment, at cost less accumulated depreciation of \$1,131,000 (1977 — \$794,000)	2,940,000	2,406,000
Goodwill (note 1 (a))	1,357,000	1,366,000
	\$529,830,000	\$446,470,000

Approved by the Board:
J. B. WHITELEY, Director
R. H. E. WALKER, Director

Liabilities and Shareholders' Equity

	1978	1977
Guaranteed accounts (note 6)		
Deposits	\$143,369,000	\$135,675,000
Guaranteed investment certificates	272,709,000	208,835,000
Bonds	70,366,000	54,888,000
Bank loans	2,190,000	2,219,000
Mortgages	275,000	378,000
	488,909,000	401,995,000
Other liabilities		
Bank indebtedness — secured		111,000
Accounts payable and accrued liabilities	4,092,000	3,046,000
Income debentures (note 7)	4,000,000	9,000,000
Notes payable (note 8)	4,575,000	2,008,000
Mortgages payable (note 9)	2,091,000	8,682,000
	14,758,000	22,847,000
Deferred income	2,242,000	3,182,000
Deferred income taxes	2,258,000	2,717,000
Minority interest in subsidiary companies		
Preferred shares	3,000,000	3,000,000
Common shares and retained earnings	1,001,000	1,090,000
	4,001,000	4,090,000
Shareholders' equity		
Capital stock (note 10)		
Issued		
200,000 Cumulative, redeemable preferred shares, Series A	5,000,000	
2,419,905 Common shares (1977 — 2,916,870)	6,120,000	7,377,000
Retained earnings	6,542,000	6,361,000
	17,662,000	13,738,000
Less: 496,965 Common shares held by a subsidiary company — at cost (note 10)		2,099,000
	17,662,000	11,639,000
	\$529,830,000	\$446,470,000

Commerce Capital Corporation Limited

Consolidated Statement of Earnings

Year ended December 31, 1978

	1978	1977
Income		
Mortgages	\$42,191,000	\$36,543,000
Sale of properties	11,343,000	17,069,000
Marketable securities		
Dividends	1,905,000	1,333,000
Other	6,571,000	6,039,000
Other sources	2,872,000	3,772,000
	64,882,000	64,756,000
Expenses		
Interest	41,014,000	34,409,000
Cost of properties	11,131,000	18,036,000
Personnel	4,025,000	3,674,000
Premises	1,275,000	787,000
Other administrative and general expenses	5,068,000	4,989,000
	62,513,000	61,895,000
Earnings before income taxes, minority interest and extraordinary items	2,369,000	2,861,000
Income taxes (note 11)		
Current	399,000	285,000
Deferred	(197,000)	56,000
	202,000	341,000
	2,167,000	2,520,000
Minority interest	465,000	507,000
Earnings before extraordinary items	1,702,000	2,013,000
Extraordinary items		
Relocation expense net of income taxes and minority interest	(238,000)	
Realization of income tax benefits not recorded in prior years	155,000	
	(83,000)	
Net earnings	1,619,000	2,013,000
Net earnings applicable to preferred shares	15,000	
Net earnings applicable to common shares	\$ 1,604,000	\$ 2,013,000
Earnings per common share (note 12)		
Before extraordinary items	\$.70	\$.81
After extraordinary items	\$.66	\$.81

Year ended December 31, 1978

	1978	1977
Balance at beginning of year	\$ 6,361,000	\$ 4,696,000
Net earnings	1,619,000	2,013,000
	7,980,000	6,709,000
Dividends		
Preferred shares	15,000	
Common shares	581,000	348,000
	596,000	348,000
Excess of the cost of common shares cancelled over their paid-in value	842,000	
Balance at end of year	\$ 6,542,000	\$ 6,361,000

Year ended December 31, 1978

	1978	1977
Funds derived from		
Net earnings, including items not involving cash of \$815,000 (1977 — \$1,667,000)	\$ 2,434,000	\$ 3,680,000
Increase in guaranteed accounts	86,914,000	63,472,000
Decrease in properties	9,739,000	9,284,000
Increase in capital stock	5,000,000	
Increase in deferred income	108,000	125,000
Decrease in accounts receivable and other assets		2,775,000
	104,195,000	79,336,000
Funds applied to		
Increase in mortgages	88,965,000	52,640,000
Increase in marketable securities	1,879,000	13,007,000
Decrease in other liabilities	8,089,000	7,120,000
Increase in accounts receivable and other assets	4,858,000	
Increase in premises and equipment	910,000	193,000
Dividends paid	596,000	348,000
Dividends paid to minority shareholders — preferred	323,000	323,000
— common	72,000	69,000
Other	166,000	113,000
Purchase of company's shares		582,000
	105,858,000	74,395,000
Increase (decrease) in funds	(1,663,000)	4,941,000
Cash and deposit receipts at beginning of year	26,592,000	21,651,000
Cash and deposit receipts at end of year	\$ 24,929,000	\$26,592,000

Commerce Capital Corporation Limited

Notes to Consolidated Financial Statements

Year ended December 31, 1978

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements include the assets and liabilities of all subsidiary companies and the results of their operations from their respective dates of acquisition or incorporation.

The excess of the cost of shares over the company's interest in the identifiable net assets of subsidiary companies acquired is recorded as goodwill. An amount of \$871,000 pertaining to subsidiaries acquired prior to March 31, 1974 is being carried without amortization. For acquisitions subsequent to that date, an excess amounting to \$524,000 is being amortized over forty years from the respective dates of acquisition.

(b) Marketable securities

Marketable securities consist of government and corporate bonds, recorded at amortized cost plus accrued interest, and common and preferred shares, recorded at cost plus accrued dividends.

(c) Mortgages

Mortgages are stated at their outstanding principal amounts plus accrued interest, less property tax prepayments and an allowance for loss.

Discounts on mortgages issued and certain service fees charged are deferred and taken into interest income over the term of each mortgage.

(d) Properties

All costs and expenses directly related to real estate development activities, including properties acquired under foreclosure, are capitalized until substantial rental occupancy is achieved. Thereafter, the cost of the investment properties, exclusive of land costs, is depreciated on a 5%, thirty-year sinking fund basis.

Properties held for sale are recorded at the lower of cost and estimated net realizable value.

(e) Premises and equipment

In general, depreciation is being provided using the following methods and rates:

Buildings	— straight line over 20 years
Equipment	— straight line over 10 years
Leasehold improvements	— straight line over 5 years

2. MARKETABLE SECURITIES

	1978		1977	
	Carrying value	Market value	Carrying value	Market value
Bonds				
Federal	\$14,803,000	\$14,070,000	\$ 2,159,000	\$ 2,125,000
Provincial	19,101,000	17,074,000	29,604,000	28,298,000
Corporate	7,111,000	6,920,000	7,667,000	7,644,000
	41,015,000	38,064,000	39,430,000	38,067,000
Stocks				
Preferred	16,314,000	16,677,000	16,561,000	17,323,000
Common	5,959,000	5,919,000	5,418,000	5,279,000
	22,273,000	22,596,000	21,979,000	22,602,000
Total	\$63,288,000	\$60,660,000	\$61,409,000	\$60,669,000

3. MORTGAGES

Mortgages include an amount of \$2,333,000 (1977 — \$3,049,000) representing beneficial ownership of interests in certain registered mortgages, which interests are held in trust by a director of a subsidiary company who is also a director of Commerce Capital Corporation Limited.

4. ACCOUNTS RECEIVABLE AND OTHER ASSETS

Included therein is an amount of \$454,000 (1977 — \$1,347,000) representing accounts receivable purchased in connection with factoring operations and an amount receivable of \$356,000 from a director, due in 1980, arising from a guarantee of mortgages acquired.

5. PROPERTIES

	1978	1977
Investment properties	\$10,945,000	\$17,650,000
Less accumulated depreciation	250,000	482,000
	10,695,000	17,168,000
Properties under development	3,237,000	3,293,000
Properties held for sale	3,707,000	7,155,000
	\$17,639,000	\$27,616,000

Depreciation on properties totalled \$238,000 (1977 — \$239,000).

6. GUARANTEED ACCOUNTS

The guaranteed accounts pertain to regulated trust and loan operations and are secured by the following segregated assets:

	1978	1977
Cash and deposit receipts	\$ 19,459,000	\$ 20,960,000
Marketable securities	46,279,000	47,570,000
Mortgages	407,897,000	315,503,000
Properties	15,274,000	17,962,000
	\$488,909,000	\$401,995,000

7. INCOME DEBENTURES

The income debentures bear interest at a rate which is related to the prime lending rate of the company's bankers and mature January 31, 1980.

8. NOTES PAYABLE

\$1,496,000 — Series A 10 $\frac{1}{2}$ % subordinated notes due April 30, 1982 repayable \$168,000 annually with a final payment of \$992,000 at maturity, for which certain marketable securities, maturing in the year of redemption, are being held to provide funds for repayment.

\$3,000,000 — Series B 10 $\frac{3}{4}$ % subordinated notes due April 30, 1985 repayable \$250,000 annually with a final payment of \$1,500,000 at maturity, for which certain marketable securities, maturing in the year of redemption, are being held to provide funds for repayment.

\$79,000 — non-interest-bearing unsecured notes, maturing in 1984, due primarily to minority shareholders of a subsidiary company.

9. MORTGAGES PAYABLE

	1978	1977
Mortgages secured by investment properties, bearing interest ranging from 7½% to 13%, maturing from 1981 to 1988	\$2,024,000	\$8,614,000
Other	67,000	68,000
	<u>\$2,091,000</u>	<u>\$8,682,000</u>

Minimum annual principal payments for the next five years are:

1979 — \$16,000, 1980 — \$18,000, 1981 — \$185,000, 1982 — \$22,000, 1983 — \$24,000.

10. CAPITAL STOCK

Cancellation

During the year, 496,965 of the outstanding common shares of the company were distributed to the company on the wind up of a wholly-owned subsidiary and subsequently cancelled.

Issuance

During the year, 200,000 cumulative, non-voting preferred shares, Series A were issued for \$5,000,000. Dividends are cumulative at a floating rate equal to one-half of the chartered bank's prime lending rate plus 1¾%. The company is to redeem preferred shares having an aggregate stated value of \$1,000,000 on December 31 of each year from 1984 to 1988.

11. INCOME TAXES

The provision for income taxes is less than the amount derived by applying statutory rates to earnings before income taxes and minority interest because the non-taxable portion of capital gains, non-taxable dividends and non-deductible interest on income debentures are not included in the computation of income for tax purposes.

12. EARNINGS PER COMMON SHARE

Earnings per common share have been calculated based on the weighted average number of shares outstanding in 1978 and 1977 of 2,419,905 and 2,493,758 respectively.

13. COMMITMENTS

The aggregate minimum rentals payable under leases, exclusive of property taxes, insurance and other occupancy and maintenance charges for the five years ending December 31, 1983 are approximately \$2,542,000.

14. OTHER INFORMATION

- (a) The aggregate direct remuneration paid to directors and senior officers amounted to \$487,000 (1977 — \$422,000).
- (b) Depreciation of premises and equipment in 1978 totalled \$376,000 (1977 — \$304,000).
- (c) Certain 1977 items have been reclassified to conform with the 1978 presentation.

Commerce Capital Trust Company

Consolidated Financial Statements

Auditors' Report

To the Shareholders of
Commerce Capital Trust Company

We have examined the consolidated balance sheet of Commerce Capital Trust Company as at December 31, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances including verification of cash, bank balances and securities of the company. All our requirements as auditors have been complied with.

After due consideration we have formed an independent opinion of the position of the company as at December 31, 1978 and we report that in our opinion and according to the best of our information and the explanations given to us, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We report that the financial statements are in agreement with the books of the company and that all transactions that have come within our notice have, in our opinion, been within the powers of the company.

Thorne Liddell & Co.

Chartered Accountants

Toronto, Canada
March 1, 1979

Commerce Capital Trust Company

(Incorporated under the laws of Alberta)

Consolidated Balance Sheet

as at December 31, 1978

	1978	1977
Assets		
Cash and deposit receipts	\$ 14,089,000	\$ 23,761,000
Marketable securities (note 2)	61,710,000	60,893,000
Mortgages	343,508,000	260,323,000
Accounts receivable and other assets	5,669,000	1,804,000
Properties (note 3)	17,508,000	27,647,000
Premises and equipment, at cost less accumulated depreciation of \$1,032,000 (1977 — \$683,000)	2,736,000	2,107,000
	\$445,220,000	\$376,535,000
Liabilities and Shareholders' Equity		
Guaranteed account (note 4)		
Deposits	\$143,369,000	\$135,675,000
Guaranteed investment certificates	272,709,000	208,835,000
	416,078,000	344,510,000
Other liabilities		
Accounts payable and accrued liabilities	4,132,000	2,387,000
Mortgages payable (note 5)	2,024,000	8,614,000
Subordinated notes (note 6)	4,496,000	1,664,000
	10,652,000	12,665,000
Deferred income	2,137,000	2,942,000
Deferred income taxes	1,587,000	2,198,000
Shareholders' equity		
Capital stock (note 7)		
Authorized		
1,000,000 Preferred shares at the par value of \$10 each, issuable in series		
2,000,000 Common shares at the par value of \$1 each		
Issued		
300,000 10¾% Cumulative, redeemable preferred shares, Series A	3,000,000	3,000,000
1,361,478 Common shares	1,361,000	1,361,000
Contributed surplus	2,091,000	2,091,000
General reserve		5,500,000
Retained earnings	8,314,000	2,268,000
	14,766,000	14,220,000
	\$445,220,000	\$376,535,000

Approved by the Board:

J. B. WHITELY, Director

R. B. LOVE, Director

Consolidated Statement of Earnings

Year ended December 31, 1978

	1978	1977
Income		
Mortgages	\$34,218,000	\$29,606,000
Sale of properties	11,343,000	17,069,000
Marketable securities		
Dividends	1,864,000	1,294,000
Other	6,213,000	5,740,000
Other sources	2,659,000	2,842,000
	<u>56,297,000</u>	<u>56,551,000</u>
Expenses		
Interest	34,294,000	28,368,000
Cost of properties	11,162,000	18,036,000
Personnel	3,670,000	2,939,000
Premises	1,183,000	663,000
Other administrative and general expenses	4,375,000	4,150,000
	<u>54,684,000</u>	<u>54,156,000</u>
Earnings before income taxes and extraordinary item	<u>1,613,000</u>	<u>2,395,000</u>
Income taxes (note 8)		
Current	18,000	(63,000)
Deferred	(349,000)	(24,000)
	<u>(331,000)</u>	<u>(87,000)</u>
Earnings before extraordinary item	<u>1,944,000</u>	<u>2,482,000</u>
Relocation expense net of income taxes of \$247,000	(259,000)	
Net earnings	<u>1,685,000</u>	<u>2,482,000</u>
Earnings applicable to preferred shares	323,000	323,000
Net earnings applicable to common shares	<u>1,362,000</u>	<u>2,159,000</u>
Earnings per common share		
Before extraordinary item	\$1.19	\$1.59
Net earnings	\$1.00	\$1.59

Commerce Capital Trust Company

Consolidated Statement of Retained Earnings

Year Ended December 31, 1978

	1978	1977
Balance at beginning of year	\$2,268,000	\$1,567,000
Net earnings	1,685,000	2,482,000
Transfer from (to) general reserve (note 9)	5,500,000	(750,000)
	9,453,000	3,299,000
Dividends		
Common shares	816,000	708,000
Preferred shares	323,000	323,000
	1,139,000	1,031,000
Balance at end of year	\$8,314,000	\$2,268,000

Consolidated Statement of Changes in Financial Position

Year Ended December 31, 1978

	1978	1977
Funds derived from		
Net earnings, including items not involving cash of \$792,000		\$ 1,690,000
Increase in guaranteed account	\$71,568,000	54,096,000
Issue of subordinated notes	3,000,000	
Increase in deferred income	913,000	1,413,000
Decrease in properties	9,941,000	8,926,000
	85,422,000	66,125,000
Funds applied to		
Net earnings, excluding items not involving cash of \$2,260,000	516,000	
Increase in marketable securities	817,000	13,048,000
Increase in mortgages	82,767,000	42,221,000
Increase in premises and equipment	977,000	223,000
Decrease in mortgages payable	6,590,000	3,769,000
Redemption of subordinated notes	168,000	168,000
Dividends	1,139,000	1,031,000
Other	2,120,000	677,000
	95,094,000	61,137,000
Increase (decrease) in funds	(9,672,000)	4,988,000
Cash and deposit receipts at beginning of year	23,761,000	18,773,000
Cash and deposit receipts at end of year	\$14,089,000	\$23,761,000

Certificate

(Under the Trust Companies Act, Section 91 (3))

We certify that the financial statements of Commerce Capital Trust Company and subsidiary companies are to the best of our knowledge and belief correct and show truly and clearly the financial condition of the companies' affairs.

J. B. Whitely, Chairman and President
J. W. Leech, Senior Vice-President, Operations

Commerce Capital Trust Company

Notes to Consolidated Financial Statements

Year ended December 31, 1978

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements include the assets and liabilities of all subsidiary companies and the results of their operations from their respective dates of acquisition or incorporation.

(b) Marketable securities

Marketable securities consist of government and corporate bonds, recorded at amortized cost plus accrued interest and common and preferred shares recorded at cost plus accrued dividends.

(c) Mortgages

Mortgages are stated at outstanding principal plus accrued interest, less property tax prepayments and an allowance for loss.

Discounts on mortgages issued and certain services fees charged are deferred and taken into interest income over the term of each mortgage.

(d) Properties

All costs and expenses directly related to real estate development activities, including properties acquired under foreclosure, are capitalized until substantial rental occupancy is achieved. Thereafter, the cost of the investment properties, exclusive of land costs, is depreciated on a 5%, thirty-year sinking fund basis.

Properties held for sale are recorded at the lower of cost and estimated net realizable value.

(e) Premises and equipment

Depreciation is being provided using the following methods and rates:

Buildings	— straight line over 20 years
Equipment	— straight line over 10 years
Leasehold improvements	— straight line over 5 years

2. MARKETABLE SECURITIES

	1978		1977	
	Carrying value	Market value	Carrying value	Market value
Bonds				
Federal	\$14,803,000	\$14,070,000	\$ 2,159,000	\$ 2,125,000
Provincial	19,101,000	17,074,000	29,604,000	28,298,000
Corporate	7,111,000	6,920,000	7,667,000	7,644,000
	41,015,000	38,064,000	39,430,000	38,067,000
Stocks				
Preferred	15,664,000	16,088,000	16,045,000	16,884,000
Common	5,031,000	4,970,000	5,418,000	5,279,000
	20,695,000	21,058,000	21,463,000	22,163,000
Total	\$61,710,000	\$59,122,000	\$60,893,000	\$60,230,000

3. PROPERTIES

	1978	1977
Investment properties	\$10,945,000	\$17,681,000
Less accumulated depreciation	250,000	482,000
	10,695,000	17,199,000
Properties under development	3,237,000	3,293,000
Properties held for sale	3,576,000	7,155,000
	\$17,508,000	\$27,647,000

Depreciation on properties totalled \$238,000 (1977 — \$239,000).

4. GUARANTEED ACCOUNT

Deposits include savings and chequing accounts, registered retirement savings plans, registered home ownership savings plans and income averaging annuity contracts.

Assets segregated to secure the Guaranteed Account are as follows:

	1978	1977
Cash and deposit receipts	\$ 11,302,000	\$ 19,105,000
Mortgages	343,223,000	259,873,000
Marketable securities	46,279,000	47,570,000
Properties	15,274,000	17,962,000
	\$416,078,000	\$344,510,000

5. MORTGAGES PAYABLE

Mortgages are secured by investment properties, bear interest ranging from 7½% to 13% and mature from 1981 to 1988. Minimum annual principal payments for the next five years are:

1979 — \$16,000, 1980 — \$18,000, 1981 — \$185,000, 1982 — \$22,000, 1983 — \$24,000.

6. SUBORDINATED NOTES

	1978	1977
Series A 10½% due April 30, 1982 repayable \$168,000 annually with final payment of \$992,000 at maturity	\$1,496,000	\$1,664,000
Series B 10¾% due April 30, 1985 repayable \$250,000 annually with final payment of \$1,500,000 at maturity	3,000,000	—
	\$4,496,000	\$1,664,000

Certain marketable securities, maturing in the year of redemption, are being held to provide funds for repayment of the above notes.

7. CAPITAL STOCK

The 10 $\frac{3}{4}$ % cumulative, redeemable preferred shares, Series A, are redeemable after July 31, 1980 at varying premiums to July 31, 1994 and thereafter at par.

The company is required, in successive twelve month periods commencing August 1, 1976, to purchase 15,000 Series A preferred shares, if available, in the open market at prices not exceeding their par value plus accrued and unpaid dividends. The company's maximum obligation at any one time is to acquire 45,000 shares.

8. INCOME TAXES

The provision for income taxes is less than the amount derived by applying statutory rates to earnings before income taxes and extraordinary item because the non-taxable portion of capital gains and non-taxable dividends are not included in the computation of income for tax purposes.

9. RETAINED EARNINGS

In prior years the company made discretionary allocations to a general reserve accumulating \$5,500,000 as at December 31, 1977. In the year ended December 31, 1978 the company restored the accumulated discretionary allocations to retained earnings.

10. COMMITMENTS

The aggregate minimum rentals payable under leases, exclusive of property taxes, insurance and other occupancy and maintenance charges for the five years ended December 31, 1983 are approximately \$2,542,000.

11. OTHER INFORMATION

- (a) The aggregate direct remuneration paid by the company to directors and senior officers amounted to \$444,000 (1977 — \$487,000).
- (b) Depreciation of premises and equipment in 1978 totalled \$348,000 (1977 — \$269,000).
- (c) Certain 1977 items have been reclassified to conform with the 1978 presentation.

Commerce Capital Mortgage Corporation

Financial Statements

Auditors' Report

To the Shareholders of
Commerce Capital Mortgage Corporation

We have examined the balance sheet of Commerce Capital Mortgage Corporation as at December 31, 1978 and the statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the company, these financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Riddell & Co.
Chartered Accountants

Toronto, Canada
March 1, 1979

Commerce Capital Mortgage Corporation

(Incorporated by Special Act of Parliament under the laws of Canada)

Balance Sheet

as at December 31, 1978

Assets	1978	1977
Cash and deposit receipts	\$ 9,601,000	\$ 1,902,000
Marketable securities (quoted market value \$1,422,000; 1977 — \$323,000)	1,462,000	400,000
Mortgages	65,405,000	59,049,000
Accounts receivable and other assets	1,024,000	636,000
Properties	131,000	
Premises and equipment, at cost less accumulated depreciation of \$51,000 (1977 — \$40,000)	52,000	110,000
	\$77,675,000	\$62,097,000

Liabilities and Shareholders' Equity

Guaranteed account (note 2)		
Bank indebtedness	\$ 2,190,000	\$ 2,219,000
Series B bonds (note 3)	70,366,000	54,888,000
Mortgages payable	275,000	379,000
	72,831,000	57,486,000
Other Liabilities		
Accounts payable and accrued liabilities	98,000	126,000
Deferred income	105,000	240,000
Deferred income taxes	671,000	515,000
Shareholders' equity		
Capital stock		
Authorized		
803,200 shares, par value \$10 per share		
Issued		
170,040 shares	1,700,000	1,700,000
General reserve		450,000
Retained earnings (note 4)	2,270,000	1,580,000
	3,970,000	3,730,000
	\$77,675,000	\$62,097,000

We hereby certify that to the best of our knowledge and belief the foregoing balance sheet is correct and shows truly and clearly the financial condition of the company's affairs.

J.B. WHITEY, Chairman and President

A.L. BEATTIE, Director

C. ORENSTEIN, Director

Statement of Earnings

Year ended December 31, 1978

	1978	1977
Income		
Mortgages	\$7,329,000	\$6,603,000
Marketable securities		
Dividends	32,000	29,000
Other	261,000	254,000
Other sources	112,000	171,000
	7,734,000	7,057,000
Expenses		
Interest	6,166,000	5,314,000
Personnel	156,000	265,000
Premises	60,000	42,000
Other administrative and general expenses	514,000	403,000
	6,896,000	6,024,000
Earnings before income taxes	838,000	1,033,000
Income taxes		
Current	238,000	399,000
Deferred	156,000	80,000
	394,000	479,000
Net earnings	\$ 444,000	\$ 554,000
Earnings per share	\$2.61	\$3.26

Statement of Retained Earnings

Year ended December 31, 1978

	1978	1977
Balance at beginning of year	\$1,580,000	\$1,313,000
Net earnings	444,000	554,000
Transfer from (to) general reserve (note 4)	450,000	(100,000)
	2,474,000	1,767,000
Dividends	204,000	187,000
Balance at end of year	\$2,270,000	\$1,580,000

Commerce Capital Mortgage Corporation

Statement of Changes in Financial Position

Year ended December 31, 1978

	1978	1977
Funds derived from		
Net earnings, including items not involving cash of \$262,000 (\$346,000 in 1977)	\$ 706,000	\$ 638,000
Proceeds from sale of marketable securities	113,000	151,000
Increase in series B bonds	15,478,000	8,165,000
Decrease in premises and equipment	46,000	29,000
Increase in deferred income		138,000
Increase in bank indebtedness		1,117,000
Increase in mortgages payable		95,000
	16,343,000	10,333,000
Funds applied to		
Decrease in accounts payable and accrued liabilities	28,000	200,000
Increase in mortgages	6,356,000	10,623,000
Increase in marketable securities	1,177,000	
Decrease in bank indebtedness	29,000	
Decrease in mortgages payable	104,000	
Dividends	204,000	187,000
Increase in accounts receivable and other assets	615,000	200,000
Increase in properties	131,000	
	8,644,000	11,210,000
Increase (decrease) in funds	7,699,000	(877,000)
Cash and deposit receipts at beginning of year	1,902,000	2,779,000
Cash and deposit receipts at end of year	\$ 9,601,000	\$ 1,902,000

Notes to Financial Statements

Year ended December 31, 1978

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Marketable securities

Marketable securities consist of common and preferred shares stated at cost plus accrued dividends.

(b) Mortgages

Mortgages are stated at their outstanding principal plus accrued interest less a provision for loss. Fees received on mortgages issued are deferred and taken into income over the term of the mortgage on the sum of the years digits method.

(c) Properties

Properties held for sale are recorded at the lower of cost and net realizable value.

(d) Premises and equipment

Depreciation is being provided using the following methods and annual rates:

Equipment	— 20% declining balance
Leasehold improvements	— straight line over the term of the lease

(e) Unamortized financing expenses

Financing expenses included in accounts receivable and other assets are being amortized and included in interest expense on a monthly basis over the term of the bonds.

2. GUARANTEED ACCOUNT

Monies borrowed for purposes of the two separate mortgage funds operated by the company are kept and accounted for separately and invested in assets segregated to secure these borrowings. The assets and corresponding liabilities are as follows:

	1978	1977
Assets		
A Fund		
Cash and deposit receipts		\$ 12,000
Mortgages		907,000
		919,000
B Fund		
Cash and deposit receipts	\$ 8,157,000	1,853,000
Mortgages	64,612,000	54,711,000
Accounts receivable	62,000	3,000
	72,831,000	56,567,000
	\$72,831,000	\$57,486,000

	1978	1977
Liabilities		
A Fund		
Bank indebtedness		\$ 919,000
B Fund		
Bank indebtedness (series B bonds held as collateral)	\$ 2,190,000	1,300,000
Series B bonds	70,366,000	54,888,000
Mortgages payable	275,000	379,000
	72,831,000	56,567,000
	<u>\$72,831,000</u>	<u>\$57,486,000</u>

3. SERIES B BONDS, MORTGAGE FUND B

Bonds mature as follows:

	1978	1977
1978		\$16,863,000
1979	\$11,686,000	4,869,000
1980	10,613,000	9,872,000
1981	18,112,000	17,816,000
1982	5,559,000	5,468,000
1983	24,396,000	
	<u>\$70,366,000</u>	<u>\$54,888,000</u>

4. RETAINED EARNINGS

In prior years the company made discretionary allocations to a general reserve accumulating \$450,000 as at December 31, 1977. In the year ended December 31, 1978 the company restored the accumulated discretionary allocations to retained earnings.

5. OTHER INFORMATION

- (a) The aggregate direct remuneration paid by the company to directors and senior officers amounted to \$96,000 in 1978 (1977 — \$167,000).
- (b) Depreciation of premises and equipment in 1978 totalled \$12,000 (1977 — \$13,000).
- (c) Certain 1977 comparative figures have been reclassified to conform with the 1978 presentation.

Commerce Capital Corporation Limited

Five-Year Financial Summary

	1978	1977	1976	1975	1974
Year-End Position	(thousands except per share figures)				
Assets					
Cash and deposits	\$ 24,929	\$ 26,592	\$ 21,651	\$ 13,892	\$ 5,952
Securities	63,288	61,409	48,402	37,505	28,046
Mortgages	411,907	322,615	271,627	239,204	167,673
Accounts receivable factored	454	1,347	4,470	5,935	3,282
Properties	17,639	27,616	37,139	13,391	9,643
Other	11,613	6,891	7,139	5,810	6,112
	\$529,830	\$446,470	\$390,428	\$315,737	\$220,708
Guaranteed accounts					
Demand deposits	\$143,369	135,675	\$107,040	\$ 68,466	\$ 37,916
Term deposits	272,709	208,835	183,374	160,616	122,719
Bonds	70,641	55,266	47,030	33,388	24,643
Bank loans	2,190	2,219	1,079	2,707	1,321
	\$488,909	\$401,995	\$338,523	\$265,177	\$186,599
Other liabilities	\$ 17,000	\$ 26,029	\$ 34,527	\$ 34,430	\$ 22,145
Deferred income taxes	\$ 2,258	\$ 2,717	\$ 2,661	\$ 1,311	\$ 853
Minority interest	\$ 4,001	\$ 4,090	\$ 4,161	\$ 4,277	\$ 3,048
Common Shareholders' equity	\$ 12,662	\$ 11,639	\$ 10,556	\$ 10,542	\$ 8,063
Per share	\$ 5.23	\$ 4.81	\$ 4.19	\$ 3.61	\$ 3.38
Results for Year	(thousands except per share figures)				
Income					
Interest	\$ 47,778	\$ 42,054	\$ 37,733	\$ 29,007	\$ 20,197
Other	17,104	22,702	20,851	2,853	1,935
	\$ 64,882	\$ 64,756	\$ 58,584	\$ 31,860	\$ 22,132
Expenses					
Interest	\$ 41,014	\$ 34,409	\$ 30,134	\$ 22,468	\$ 14,766
Other	21,499	27,486	23,863	5,863	4,798
	\$ 62,513	\$61,895	\$ 53,997	\$ 28,331	\$ 19,564
Common share earnings					
before extraordinary items	\$ 1,687	\$ 2,013	\$ 1,857	\$ 1,305	\$ 826
Per share	70¢	81¢	67¢	51¢	36¢
Net earnings applicable to					
common shares	\$ 1,604	\$ 2,013	\$ 1,857	\$ 1,305	\$ 826
Per share	66¢	81¢	67¢	51¢	36¢
Shareholders' Statistics					
Common shares outstanding					
Weighted average	2,419,905	2,493,758	2,760,158	2,539,336	2,314,843
At year-end	2,419,905	2,419,905	2,516,870	2,916,870	2,386,870

Commerce Capital Corporation Limited

Directors

- † A.L. Beattie, Q.C., Toronto,
 - Partner,
Osler, Hoskin & Harcourt
- † T.L. Charne, Q.C., Winnipeg,
 - Senior Vice-President
- † D.P. Hays, Calgary,
 - Partner,
Macleod Dixon
- W.R. Livingston, Toronto,
 - President,
Eaton/Bay Financial Services Limited
- † R.B. Love, Q.C., Calgary,
 - Partner,
Macleod Dixon
- † C. Orenstein, Toronto,
 - President,
Consolidated Hotel Management Limited

R.H.E. Walker, Q.C., Montreal,
Partner,
Martineau, Walker, Allison,
Beaulieu, MacKell & Clermont

- † J.B. Whitely, Toronto,
 - President and
Chief Executive Officer
- G.D. deS. Wotherspoon, Toronto,
 - Chairman,
Eaton/Bay Financial Services Limited

- Member of the Executive Committee
- † Director of Commerce Capital Trust Company
- Director of Commerce Capital Mortgage Corporation

Officers

Chairman,
G.D. deS. Wotherspoon

Deputy Chairman,
W.R. Livingston

President and Chief Executive Officer
J.B. Whitely

Senior Vice-Presidents
C.J. Cann, C.G.A. — Mortgages
T.L. Charne, Q.C.
J.W. Leech — Operations
L.R. Lunn, C.F.A. — Funds Management
and Corporate Development

Vice-Presidents
J.W. Beckerleg — Corporate Credit
O.J. Dizop — Mortgages
G.R. Greer — Mortgages
K.J. Munro, C.A. — Finance

Secretary
E.D. Bateman, C.A.

Assistant Vice-Presidents
P. Hurtubise — Mortgage Administration
R.D. Sommerville, C.F.A. — Funds Management
R.D. Whitney — Mortgages

Comptrollers
B.A. Johnson, C.A. — Budgets & Systems
G.A. Hill, C.A. — Accounting Operations

T.A. Koster — Director, Computer Services

Executive Offices

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Toronto, Ontario M5H 3M7

Locations across Canada

